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RUEHBJ/AMEMBASSY BEIJING 0251
RUEHKO/AMEMBASSY TOKYO 0961
RHMFIUU/CDR USCENTCOM MACDILL AFB FL
RUEKJCS/Joint STAFF WASHDC
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RHEHNSC/NSC WASHDC 0419
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SUBJECT: KAZAKHSTAN'S MAEC-KAZATOMPROM FACES FUNDING
CHALLENGES AND POTENTIAL OWNERSHIP CHANGES

REF: ASTANA 02086

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: On November 5, DCM and poloff visited Mangystau Atomic Energy Complex (MAEC), a subsidiary of Kazatomprom, to attend the construction completion ceremony of the U.S.-funded Sodium Processing Facility on the territory of the BN-350 fast breeder reactor. The BN-350 facility was well-maintained and ready for spent fuel cask transport operations. Morale among MAEC employees was high, but senior company officials admitted the company is operating under intense financial pressure due to high oil prices and that possible ownership changes could significantly affect MAEC's structure. Senior officials at MAEC and within the Akimat (regional administration) expect a nuclear power plant to be built on MAEC territory within the next few years. END SUMMARY.

FORMER CROWN JEWEL OF THE NUCLEAR EMPIRE SAFELY SHUT-DOWN

¶3. (SBU) The once top-secret BN-350 fast-breeder nuclear reactor provided electricity and heating for Aktau city and the surrounding region. The BN-350 reactor also formerly operated a desalinization plant, critical for the desert Mangystau region, which has no potable water supplies. After the Soviet Union's collapse, MAEC rapidly lost prestige and influence. U.S. scientists recall that 15 years ago the doors of the BN-350 facility were &hanging off the hinges.⁸ During a November 5 tour of reactor premises, however, DCM and poloff observed that plant facilities, which included an administrative complex featuring a large museum and a billboard of &employees of the year,⁸ were well-maintained. MAEC security workers were using an electronic badge system to admit authorized employees through several checkpoints, and those working or visiting the reactor were garbed in protective gear before they were allowed to visit the cesium traps and spent fuel reservoir. Embassy officials viewed the 480 small fuel casks awaiting placement into 60 TUK-123 casks for the BN-350 spent fuel transport operation, funded jointly by the U.S. Department of Energy and the government of Kazakhstan. The control room, which used to operate at the

highest levels of security and maintain a four person-security shift, now has only one person on duty, in case of fire or emergency. The control room contained old manual controls and rotary dial telephones, but MAEC officials pointed out the computer-monitoring system that was installed under the Nunn-Lugar program.

WAITING FOR A GREEN LIGHT ON TRANSPORT OPERATIONS

¶4. (SBU) U.S. officials also toured the specialized crane and loading area designed for lifting the large spent fuel cement casks onto trains for transfer to long-term storage at Baikal-1. According to Yuriy Shirobokov, MAEC's Head of the BN-350 Decommissioning Department, the crane was completed ahead of schedule by a crew of 14 Chinese laborers who worked around the clock, and &everything at MAEC's BN-350 site is prepared. We are only waiting for authorization from headquarters.⁸

MORALE REMAINS HIGH AT MAEC

¶5. (SBU) Morale among the 250 MAEC employees at BN-350 seemed high, since many expect a nuclear power plant will be built onsite. Many workers have been employed at BN-350 for 15 to 30 years. Alexander Kim, Deputy Director of the Kazakhstan Atomic Energy Commission, confirmed that during the inspection he completed on November 5-6, he found no safety violations, noting that workers at BN-350 were &very experienced professionals in nuclear security.⁸

MAEC REMAINS UNDER INTENSE FINANCIAL PRESSURE

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¶6. (SBU) After the decommissioning of the BN-350 nuclear reactor, MAEC's generators and boilers were converted to run on oil instead of nuclear power. However, Acting Deputy Director Andrey Kozelkov explained that MAEC, which remains the sole electrical and heating provider for the entire Mangystau and Atyrau regions, faces serious maintenance and funding challenges. MAEC currently sells its excess power to neighboring oblasts. Aktau's electricity consumption is only 20% of what MAEC exports to Atyrau, for example, and demand for energy in both regions is rising. Seventy to eighty percent of the company's electricity costs are for purchasing imported oil, keeping profit margins narrow. MAEC cannot freely increase prices because of the five-year moratorium on residential electricity price increases, declared in 2006, and an annual price-hike limit on commercial customers. (NOTE: This complaint rings true when compared with the experience of AES, the U.S. power company active in northern and eastern Kazakhstan (reftel). END NOTE.) Meanwhile, inflation is also rising rapidly and MAEC must continue to raise salaries to retain qualified staff. Despite support from local antimonopoly committee officials, MAEC faces financial constraints. Kozelkov commented that if Kazakhstan could buy natural gas from Turkmenistan and sell electricity in exchange, both sides could realize tremendous profits, but money to construct the necessary electricity, gas and rail lines is lacking. The company is considering laying off up to one-third of its 4,000 workers, if it can contract with an outside company to provide maintenance activities and automate services. In Kozelkov's view, a smaller, more efficient MAEC is likely to emerge if ownership of the company is transferred from Kazatomprom to KazMunaiGas, an idea currently under serious consideration.

CONSTRUCTION OF A NUCLEAR POWER PLANT AT BN-350 LIKELY

¶7. (SBU) Kozelkov also informed DCM and poloff that he was &98 percent certain⁸ that a nuclear power plant would be built at BN-350. Deputy Akim Nuragliyev also mentioned the idea as &almost certain,& attributing the plan to Vladimir Shkolnik, Minister of Trade and Industry, whom Nurgaliyev described as &a very charming person with a big following who has great authority and interest in the nuclear sector.⁸

(COMMENT: Shkolnik worked at the BN-350 reactor for approximately 20 years, eventually becoming the plant's Deputy Director before becoming Minister of Science and playing a key role in Kazakhstan's counter-proliferation efforts, including decommissioning of the BN-350 nuclear reactor. Shkolnik is an avid proponent of the advantages of nuclear power, and is likely to support Kazakhstan's rumored plans to build four nuclear power plants. Given Shkolnik's connections to BN-350, it would not be surprising that he would be encouraging its selection as one of the four future nuclear power plant sites. END COMMENT.) Nuragliyev also stated that since Kazakhstan has the second largest uranium resources in the world and is determined to become the top uranium producer in the world, Kazakhstan should develop its nuclear resources for the safe production of energy.

HOAGLAND